2017 Budget Policy Framework

[Drafting note: this draft is correct as at 20 November, and will be updated with information from the Council of Ministers and discussions during November, with a view to finalizing the statement and draft 2017 Budget by the end of November 2016]

FEDERAL GOVERNMENT OF SOMALIA

1 CONTENTS

2 EXECUTIVE SUMMARY

The budget is the key instrument through which the Federal Government of Somalia (FGS) implements its policies, and the Budget Policy Framework Paper is a key link between Government's overall policies and the annual budget. The purpose of this document is to set out how the Government intends to achieve its policy objectives over short to medium terms through the budget. In doing so the basic macroeconomic framework (even though still rudimentary) presented in this Budget Policy Framework Paper forms the basis of resource projections and indicative expenditure allocations. It also forms the basis of the detailed estimates of revenue and expenditure for fiscal year 2017, which will be presented to the Parliament before the 31 of December 2017.

The 2017 Budget preparation strategy was for a top-down approach to guide budget preparation, whereby the anticipated revenues would indicate the available expenditures that can be supported, in line with the overall target of producing a balanced budget. Under this approach due recognition has been given to the principles and guidance implicit in the Staff Monitored Program (SMP) agreements with the International Monetary Fund (IMF), and in particular, that the budget is zero cash balanced; does not lead to creation of new expenditure arrears; is based on realistic, conservative revenue forecasts derived from the proper application of the tax code, i.e. moving away from negotiated taxation arrangements; and prioritizes spending such that current year obligations are satisfied before expenditure arrears are repaid.

The budget for FGS is under severe stress – the budget is salary-centric, meaning that most resources available are being directed to the payment of wages and allowances and associated running costs for government institutions, especially Parliament, increased civil servants, and for security forces. Moreover, there is a culture of non-payment of taxation, which has resulted from the lack of good governance over the past 25-years. Whilst some sectors of the economy are showing signs of growth, there is a reluctance on the part of these sectors to meet their tax responsibilities which are outlined in the tax code, and applied before the civil war. Efforts to improve revenue collection are not receiving the support of parliament (e.g. Telecommunications Law) and issues of harmonization and agreements with sub-national governments (e.g. over Customs rates, and the collection of Fishing License Fees) also impede revenue growth.

Budget stress can be managed by reference to sensible principles and policies. Unfortunately in 2015 and 2016 decisions were taken to repay old expenditure arrears in advance of satisfying emerging commitments. The result has been the creation of new arrears, and all the associated negativity that comes with arrears generation (i.e. loss of confidence in FGS ability to manage the economy and budget; liquidity and debt issues for the emerging private sector who are supplying to government; de-motivated staff; and issues with security forces). For 2017 the FGS needs to improve fiscal discipline and budget execution by implementing the budget as approved by parliament in the Appropriation Law. Controls over staff numbers are also long overdue – the current freeze is ineffective.

For 2017 the resources available to deliver goods and services to the citizens from the Federal Budget are indicated in the following table:

(million US$)	2015 Actual	2016 Revised	2017 Budget	Change on 2016 $	Change on 2016 %
REVENUE and GRANTS	141.2	248.3	260.5	12.2	4.9%
EXPENDITURE	135.5	248.3	262.7	14.3	5.8%
BALANCE	0.0	0.0	-2.1		
Memorandum:					
Financing from Donor grants cash balances			2.1		

The budget is balanced, in accordance with the requirement of the fiscal strategy and agreements with the IMF under the SMP. The memorandum item indicates drawdown of cash balances in Donor accounts held with the Central Bank of Somalia during 2017.

The **2017 Budget Policy Framework Paper** is arranged in the following chapters:

- Chapter 3 - **The 2017 Budget Strategy** which outlines the priorities addressed in the budget; the principle, fiscal rules and targets applied; and discusses prospects for the 2016 Revised Budget, which is the foundation for 2017.
- Chapter 4 – **Economic Conditions**, which provides the recent economic context for the budget.
- Chapter 5 – **2017 Revenues**, with a discussion on recent trends in revenue mobilization, the policy framework and proposed new revenue measures, and forecasts for 2017 in detail.
- Chapter 6 – **2017 Expenditures** examines recent trends, policy options, and the estimates in detail; and
- Chapter 7 – **Special Presentations**, which provide consolidated views of the total resources, on and off- budget, in FGS, including a synopsis of the fiscal implications of the NDP, and a comprehensive security budget.

3 BUDGET STRATEGY FOR 2017

The federal budget is extremely small by international comparison, at about 4% of GDP, and is largely being used to pay public sector salaries and security costs. The budget in recent years has been characterized by insufficient revenue leading to expenditure arrears.

Security costs continue to dominate the budget, and the budget expenditures are heavily skewed towards civil service salary payments at the expense of program type spending that delivers goods and services to the citizenry such as on health, education, economic development, community amenities, and welfare. Somalia has a large stock of international debt, which determines that budgets need to be zero cash balanced since further borrowing is not possible.

Accordingly, the 2017 Budget must be balanced on a cash basis. This is one of the key benchmarks agreed with the IMF under the SMP. Only resources that are under the control of the Government are included in the Appropriation Bill; with the budget including only a small proportion of project costs spent by the international community in Somalia. To achieve the level of fiscal discipline required to produce a balanced budget, Ministries, Departments and Agencies were required to base their 2017 budget requests on the amount of resources allocated to them in the 2016 Revised Budget.

3.1 PRIORITIES OF THE FGS

The budget is the key instrument through which the Government implements its policies, and the Budget Strategy Paper is a key link between Government's overall policies and the annual budget. The purpose of this document is to set out how the Government intends to achieve its policy objectives over short to medium terms through the budget. In doing so the basic macroeconomic framework presented in this paper forms the basis of resource projections and indicative expenditure allocations.

The priority areas for attention in 2017 are:

- Enable adequate and continuing security
- Strengthen domestic raised financial resources (revenue mobilization)
- Implement the expenditure arrears management strategy

Ministries, Departments, and Agencies (MDAs) were required to take these priority areas into account when framing their detailed budgets for 2017.

3.2 PRINCIPLES

The budget is prepared in accordance with a set of principles which have been agreed with the IMF under the SMP and which are considered appropriate for sensible and sustainable fiscal management in Somalia at this time. The principles are:

(1) The budget is prepared on a cash basis;
(2) The budget is managed within a medium term fiscal framework;
(3) The budget is limited to the funds that are under the control of the government;
(4) Rules for cash rationing expenditures are included in the appropriations law passed by Parliament.

Overarching these principles is continued application of the change in the way budget resources are identified and allocated that started in 2014. The fundamental rule is to firstly identify what resources are available, rather than to add-up the assessed needs of ministries. By this method, usually referred to as a top-down approach, the assessed resource envelope is calculated, and this establishes the amount of funds available for spending. From that envelope, ministries should be provided guiding expenditure ceilings against which they are required to develop their detailed estimates. This approach will require further development over the coming years, and for 2017 the 2016 Revised Budget allocations were used as the initial expenditure guide.

3.3 FISCAL RULES

To assist adherence to the budget principles, a set of fiscal rules have been endorsed by the Council of Ministers. These rules are:

(1) Debt limit – the budget makes no addition to government debt
(2) Budget balance – the budget has a zero cash balance
(3) Expenditure – the budget will not add to the stock of expenditure arrears
(4) Revenue – all windfall revenues are to be allocated to reducing the stock of expenditure arrears.

3.4 FISCAL TARGETS

The 2017 Budget is prepared with a medium term perspective. To ensure regular and constant progress is made to improve the compositional and fiscal stance of the annual budget, a set of fiscal targets has been adopted that were used to guide preparation of the 2017. These targets, whilst aspirational, are:

(1) Salaries – reduce salaries proportion of total spending annually; by 2018 to reach 40%; and by 2025 to 35%
(2) Capital – increase capital share of total spending annually; reaching to 25% by 2025
(3) Expenditure review - a review of expenditure is needed to identify options to provide compositional balance to the budget in light of anticipated revenue expansion in the near term, improve efficiency, and help better focus spending on poverty reduction. Attention is to be given to expenditures on health, education and social protection as funds become available.
(4) Domestic revenue – to increase as a share of total revenues annually, and to cover operating expenditures by 2025
(5) Trade taxes – to reduce as a proportion of domestic revenue annually; and not to exceed 50% of domestic revenues by 2018 (the implication is for the contribution from other tax sources to increase)
(6) Revenue to GDP ratio – to increase this metric over time to a level comparable to neighboring countries.

3.5 THE 2016 REVISED BUDGET

The 2016 Budget was prepared without due attention to a conservative forecast of revenues, and especially international contributions, and as the year unfolded, it became clear that the budget expenditures as proposed were unsustainable due to shortfalls in revenue. The contribution to revenue from the international community was boosted by a post-budget grant of $20 million from the Kingdom of Saudi Arabia which was earmarked for expenditure arrears. A revised budget was prepared and submitted to Parliament. The 2016 Revised Budget was approved by the President in September, 2016 and is shown in the following table:

(million US$)	2015 Actual	2016 Budget	2016 Revised
REVENUE and GRANTS	141.2	246.3	248.3
EXPENDITURE	135.5	246.3	248.3
BALANCE	-	0.0	0.0

The 2016 revenue forecast was adjusted to be a more conservative estimation, in relation to the trends in collections evident during 2016, and known intentions of the International Community, and including the $20 million from the Saudi's. Additionally a number of policy measures were proposed, on revenue and expenditure, including funding provision for the 2016 elections.

A significant adjustment was made to the 2016 Revised Budget expenditures to provide only for 10-months of salary and allowances in 2016. This action repeats a similar approach taken in 2015. The action was considered essential to balance the budget. This action will likely result in increased expenditure arrears from 2016 which will have to be added to the stock of arrears.

During 2016 a considerable sum was paid in the first quarter to extinguish arrears – arrears repayments which were included in the budget at the request of Parliament. These payments have totaled $35.4 million to date in 2016, and earmarked funding of $20 million, from the Kingdom of Saudi Arabia, was received post-budget, and directed to fund arrears. Accordingly $15.4 million of arrears payments were made in 2016 effectively at the expense of paying current and emerging liabilities.

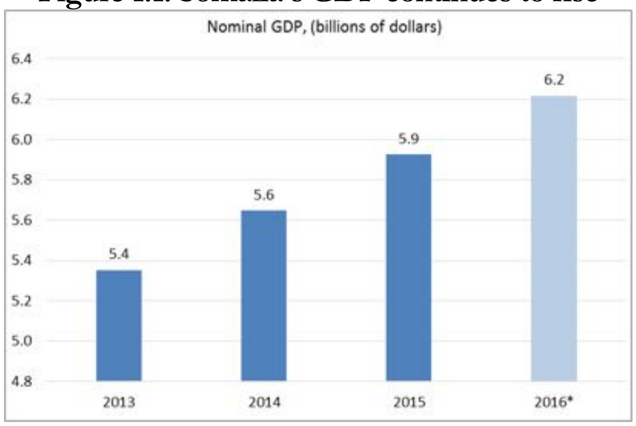
The impact of the payment of arrears at the expense of current liabilities is that current staff and suppliers are not paid for their goods and services supplied to the FGS. This negatively impacts on confidence in the ability of the government to manage its affairs. Budget execution stress in 2015 and 2016 and the deferral of 2-months' salary and allowances was the result of the decisions to pay arrears before current liabilities, and budget execution managers need to be better disciplined to avoid falling into the same trap in 2017.

4 ECONOMIC CONDITIONS[1]

4.1 ECONOMIC RECOVERY IS UNDERWAY—DESPITE SIGNIFICANT CHALLENGES

Somalia's economic growth remains steady, despite continued fragility in some parts of the country. Nominal GDP is estimated to have reached $5.9 billion in 2015, a 5 percent increase over the 2014 estimate of $5.6 billion (figure 1.1.). GDP is projected to reach $6.2 billion in 2016.

Figure 1.1: Somalia's GDP continues to rise



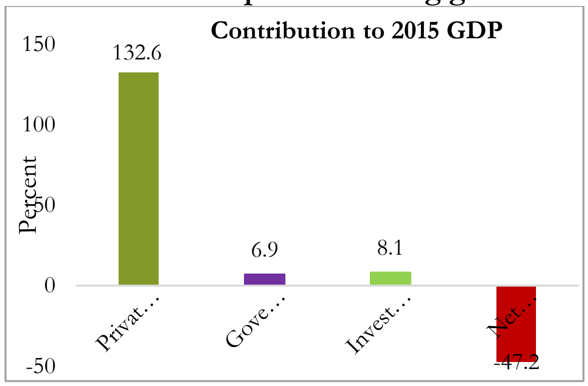
Sources: World Bank and IMF estimates.

Private consumption continues to be the engine of growth, accounting for 133 percent of GDP (figure 1.2). Government consumption accounted for only 7 percent of GDP in 2015, an increase of 1.7 percentage points over 2013. Investment remains low, contributing only 8 percent of GDP in 2015. Security concerns, political uncertainty, and a difficult business environment hinder investment in Somalia. Gross fixed capital formation grew just 6 percent on average in the past three years.

Somalia remains highly dependent on imports, the value of which is equivalent to more than two-thirds of GDP. Exports account for just 14.5 percent of GDP creating a large trade deficit (47 percent of GDP in 2015), which is financed by remittances and international aid. Direct donor support is equivalent to 9 percent of GDP.

[1] Extracted from ***Somalia Economic Note***, World Bank, September 2016

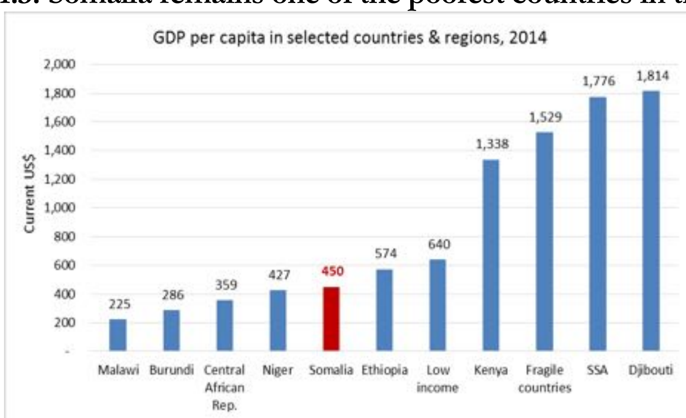
Figure 1.2 Private consumption is driving growth in Somalia



Sources: World Bank and IMF estimates.

Somalia is one of the poorest countries in the world. Its GDP per capita is estimated at about $450 in 2014—far lower than the average for Sub-Saharan Africa ($1,776), fragile countries ($1,529), or low-income countries ($640) (figure 1.3). Within the region, only Burundi ($225) and Malawi ($286) have lower per capita GDP.

Figure 1.3: Somalia remains one of the poorest countries in the world

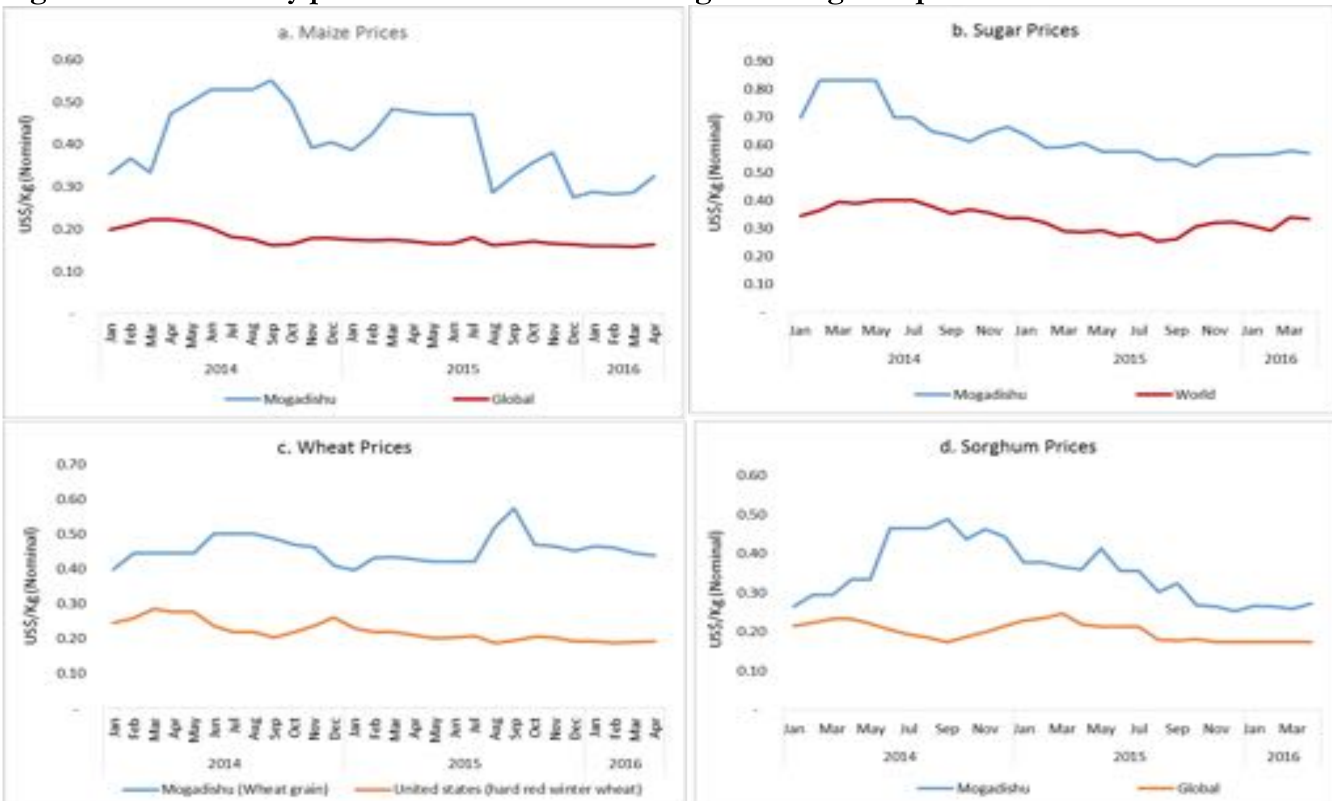


Sources: World Bank and World Development Indicators (WDI).

4.2 INFLATION REMAINS LOW, THANKS TO LOW COMMODITIES PRICES

Consumer price inflation fell from 4.5 percent in 2013 to 1.0 percent in 2015 (IMF 2016). However, commodity prices are still much higher than global market prices. The average price of maize fell from $0.45 per kilogram in 2014 to $0.40 in 2015, but it was more than twice the global market price average of $0.17 per kilogram (figure 1.4). The price of sugar was also much higher. High local commodity prices are compounded by food insecurity, which has become a recurring problem in Somalia and throughout the Horn of Africa as a result of El Niño. More than 1 million people in Somalia face acute food insecurity, partly because of recurring drought and other adverse weather conditions.

Figure 1.4: Commodity prices in Somalia are much higher than global prices

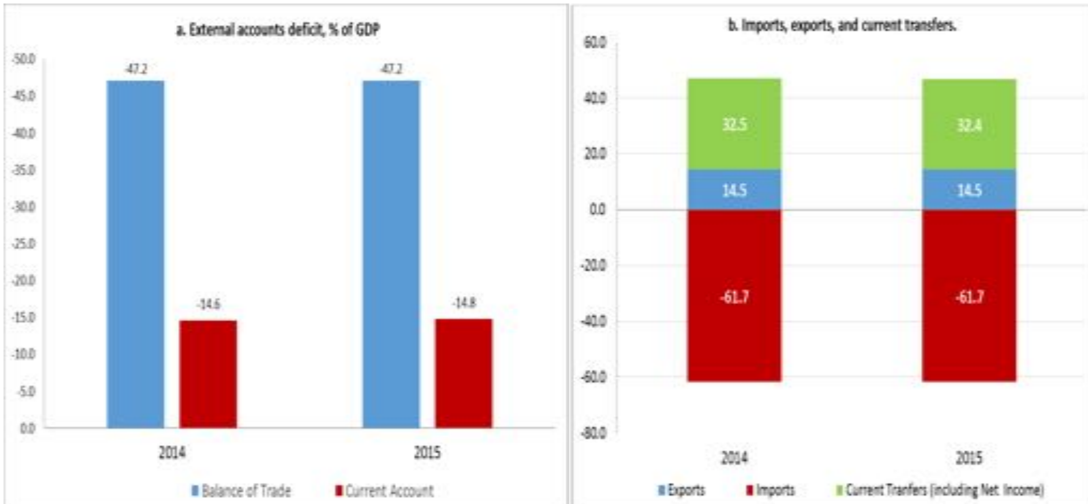


Sources: Food Security and Nutrition Analysis Unit database and World Bank Commodity Price Data (Pink Sheet).

4.3 THE LARGE EXTERNAL IMBALANCE IS A SOURCE OF VULNERABILITY

Somalia's current account deficit remains large. The current account deficit was $876 million in 2015 (14.8 percent of GDP), up slightly from 2014 ($827 million, 14.6 percent of GDP) (figure 1.5). The trade deficit (exports minus imports) rose to $2.8 billion in 2015, up from $2.7 billion in 2014 (about 47 percent of GDP in both years). It is driven by imports, estimated at $3.7 billion in 2015 (62 percent of GDP), which exceeded exports (of $859 million) by a factor of more than four.

Figure 1.5: Somalia imports more than four times as much as its exports, creating huge external account deficits



Source: World Bank and IMF estimates.

Somalia imports even the most basic goods and services, including goods it could produce itself. More than 42 percent of Somali's imports are vegetables, and another 19 percent are food products—many of which Somalia could produce domestically (table 1.1). Machinery, electrical and transport equipment, and chemicals represented just 12 percent of imports in 2013–15. Transit challenges, informal checkpoints and roadblocks, inadequate transport infrastructure, inefficient customs practices, corruption, and high energy prices discourage domestic production.

Table 1.1: Somalia's merchandise imports, 2012–12 and 2013–15

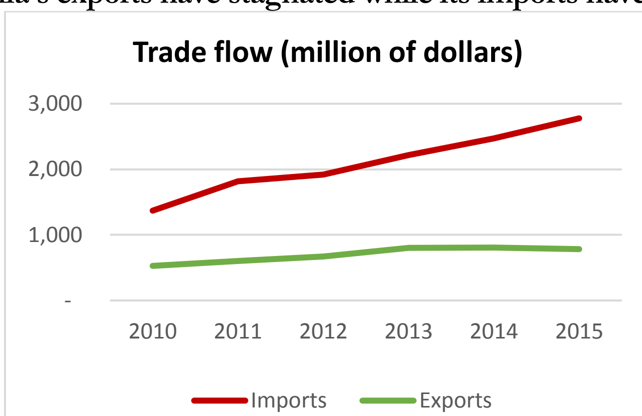
	2010–12		2013–15		Percentage growth between 2010–12 and 2013–15
Product	**Volume (millions of dollars)**	**Share of total (percent)**	**Volume (millions of dollars)**	**Share of total (percent)**	
Vegetables	397	35.3	805	41.8	102.8
Food products	340	30.3	369	19.1	8.5
Animals	83	7.4	205	10.6	146.5
Machinery and electrical equipment	48	4.3	94	4.9	96.7
Chemicals	55	4.9	71	3.7	29.8
Transportation	28	2.5	70	3.6	147.0
Textiles and clothing	36	3.2	56	2.9	54.6
Miscellaneous	31	2.8	51	2.7	63.5
Metals	25	2.2	48	2.5	95.0
Footwear	5	0.4	52	2.7	955.5
Plastic and rubber	19	1.7	34	1.8	78.0
Minerals	22	2.0	26	1.3	15.7
Wood	11	1.0	21	1.1	97.2
Fuels	16	1.4	14	0.7	–12.2
Stone and glass	6	0.6	11	0.6	83.1
Hides and skins	1	0.1	1	..	–24.1
Total	1,123	100.0	1,928	100.0	71.7

Source: IMF Direction of Trade.

With a fragile peace holding, Somalia is importing more merchandise for consumption and investment. The value of merchandise imports increased 72 percent between 2010–12 and 2013–15. This growth was driven not only by consumption but also by capital goods: Imports of transport equipment rose 147 percent, machinery and electrical equipment rose 97 percent, and chemicals rose 30 percent. Imports of vegetable doubled. Imports of animals (from Djibouti, Ethiopia, and Kenya) rose 147 percent, a response to the drought.

The export pattern is highly skewed. Exports of goods and services were just $859 million in 2015, up 5 percent over the $819 million exported in 2014 (figure 1.6). The figure is low largely because of the enormous cost of strife. Damage to vital infrastructure, security checks required to prevent violence, and the shutdown of trade routes make it difficult to produce in and export from Somalia. Higher trade costs disproportionately disadvantage small and medium-size enterprises, which lack the expertise to overcome these barriers.

Figure 1.6: Somalia's exports have stagnated while its imports have increased rapidly



Source: IMF Direction of Trade.

Somalia exports a limited range of products to a few countries. Livestock—the leading source of foreign exchange—accounts for about 80 percent of exports (figure 1.7). Somalia exported 5.3 million animals in 2015, mainly to Gulf countries, a 6 percent increase in volume over 2014 (FAO 2016). Vegetables represented 12 percent of exports. They are exported to the Gulf countries, especially Saudi Arabia and Oman. Heavy dependence on a few goods and markets leaves the economy highly vulnerable to market disruption, disease, and drought. The concentration of exports increased in recent years (figure 1.8).

Figure 1.7: Animals account for 80 percent of Somalia's exports

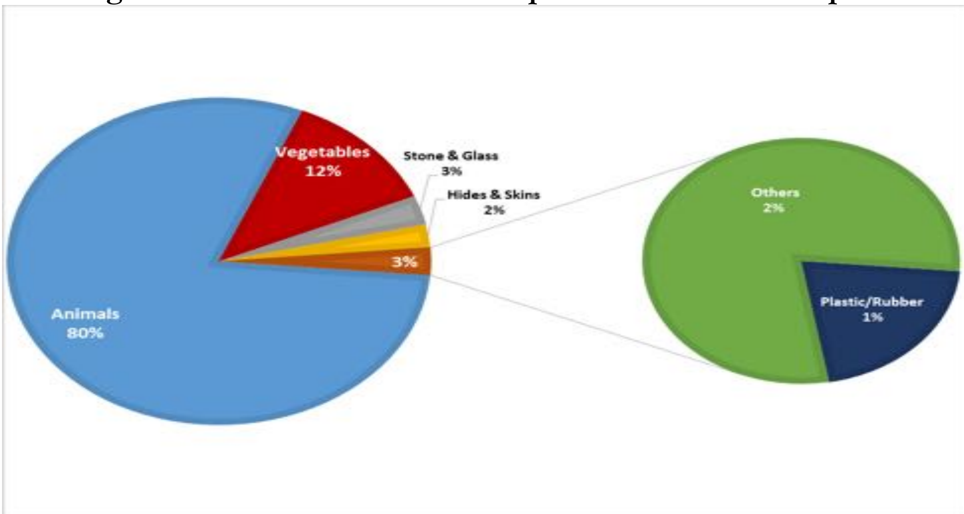
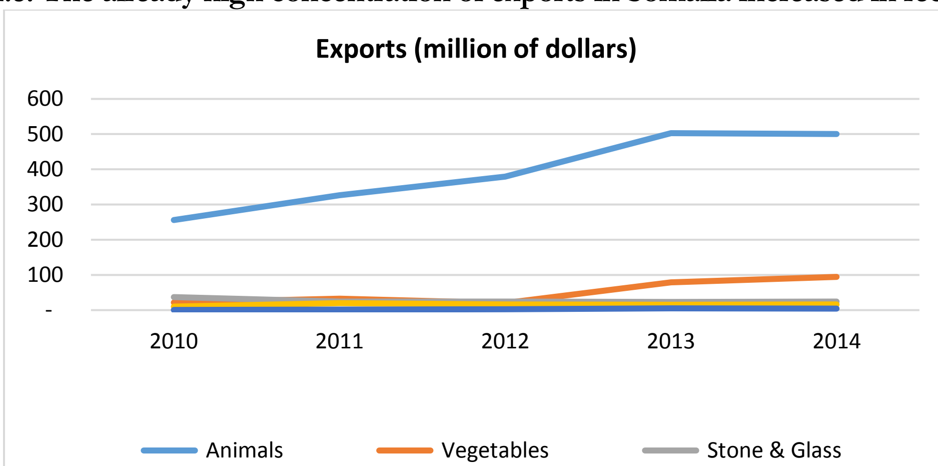


Figure 1.8: The already high concentration of exports in Somalia increased in recent years



Source: Comtrade 2016.

Foreign direct investment (FDI) is financing a reconstruction boom in Somalia. FDI reached $516 million in 2015, about 8 percent of GDP (FDI represents just 2 percent of GDP in Kenya, although the dollar amount is of course much larger). The main sources of FDI are Somalis in the diaspora and investment from Middle Eastern countries.

The Somali shilling—used only for small face-to-face transactions—was relatively stable in 2015, at about 22,200–22,300 to the US dollar. It depreciated 2.2 percent between December 2015 and March 2016, however (figure 1.9). The stability of the shilling reflects significant inflows of remittances and the fact that most transactions are conducted in dollars.

Figure 1.9: The Somali shilling was relatively stable against the US dollar in 2015

Source: Central Bank of Somalia.

Remittances—estimated at $1.4 billion in 2015 (24 percent of GDP)—remain a lifeline for the economy. They fund both consumption, including education and health, and investment, mostly in residential construction, helping Somalia sustain its high consumption rates and finance a large trade deficit.

4.4 The importance of Revenue Mobilization

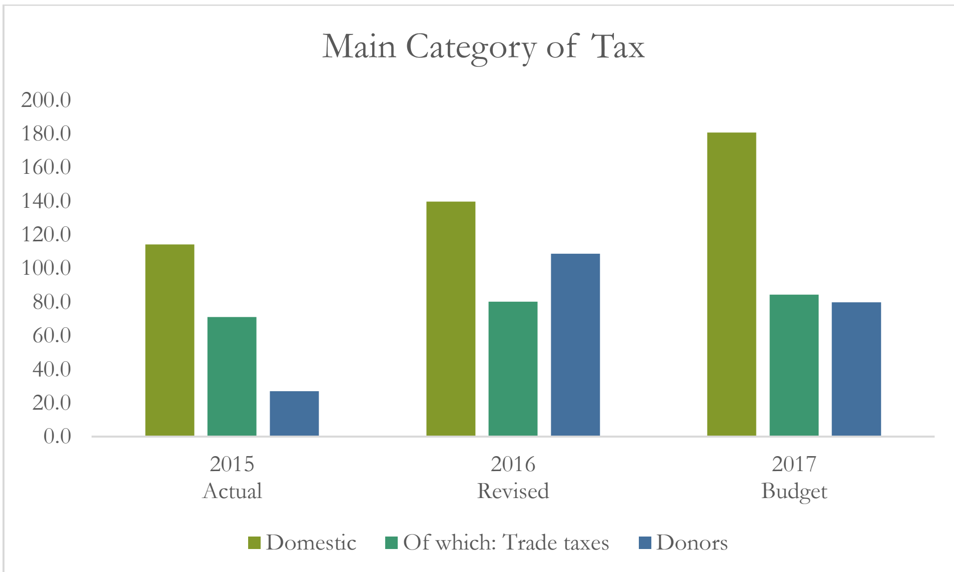
Sustainable and reliable domestic revenue is critical if Somalia is to implement its development strategy and achieve the state-building, sustained rapid economic growth, and poverty reduction it desires. To support sustainable expenditures, fuel development, and reduce reliance on external sources, the FGS needs to increase domestic revenue—without disincentivizing the private sector, the engine of development in the past two and half decades. To fund recurrent expenditures in the medium term in line with the government's objectives and maintain macroeconomic stability, revenue has to grow much more rapidly than expenditures on a sustained basis.

Improved revenue generation is key to building both a sustainable state and a durable peace. Mobilizing revenue and is a cornerstone of state-building. Domestic revenue offers Somalia a promising and sustainable source of home-grown development finance. Building capacity to raise revenue through taxes is particularly crucial, because it reduces dependence on aid, helps finance service delivery, strengthens the contract between the state and its citizens, and fortifies intrasociety relationships.

5 REVENUES

5.1 RECENT TRENDS

The trend in revenue collections since 2015 has been volatile with the Donor share of total revenues fluctuating wildly, and the share of trade taxes as a proportion of domestic taxes remaining high, as shown in the chart:



Compositionally, there are problems with revenues. The proportion of Donor funds as a % of total revenues has increased from 17.4% in 2015, and is forecast to be 43.4% in 2016. In Domestic revenue, Trade Taxes remain a large proportion of the total of Domestic revenues, from about 51% in 2015, and falling slightly in 2017 to 46%.

In **policy terms** there are serious issues with domestic revenues. The predominance of **'negotiated' taxation arrangements** is both a policy and administrative issue. Policy needs to be developed to cover gaps in taxation arrangement – such as might apply to the money transfer companies, and in the telecommunications industry – and administration needs to improve where laws exist but taxes are not being collected at the full policy rate – such as income tax on private sector employees, and sales tax.

'Negotiated' arrangements are sub-optimal since they usually understate the taxes that ought to be collected if the law was applied as designed, and such arrangements can lack transparency. Moreover they do not respond to changes in economic conditions, so as GDP rises, the share of tax is likely to fall in the situation where negotiated taxes are a feature. Also the very existence of a negotiated arrangements serves to close off discussion for a move to proper tax arrangements such as sales based taxes in industry sectors.

Tax administration efficiency is impacted by security, capacity constraints, and a culture of non-compliance that has developed in the last 25-year period of conflict in Somalia. A **revenue mobilization plan** has been prepared with implementation dependent on assistance from the international community. Revenue mobilization is the #1 priority for Ministry of Finance in the immediate future. Organizational reforms and staff appointments under the Capacity Injection Program are in train and are expected to provide a more robust resource for mobilizing inland revenues in 2017.

The failure of **Parliament to pass laws**, such as the Telecommunications Law, hampers revenue mobilization.

Finally, there are opportunities for **new taxation arrangements** that are being progressed with necessary vigor. In 2017 there are a number of specific tax mobilization measures being discussed (see below).

5.2 THE 2017 FORECASTS

The situation for 2017 Revenue forecasts is reflected in the following table:

(million US$)	2015 Actual	2016 Revised	2017 Budget	Change $	Change on Budget %
REVENUE	141.2	248.3	260.5	12.2	4.9%
DOMESTIC REVENUE	**114.3**	**139.7**	**180.7**	**41.0**	**29.4%**
Tax Revenue	**82.4**	**101.1**	**154.9**	**53.8**	**53.2%**
Income and corporate taxes	1.9	5.3	4.0	-1.4	-25.5%
Taxes on international trade	71.1	80.1	84.3	4.2	5.2%
Other domestic indirect taxes	4.8	7.9	56.1	48.3	614.7%
Other taxes	4.5	7.8	10.5	2.7	33.9%
Non-Tax Revenue	**31.9**	**38.5**	**25.8**	**-12.8**	**-33.2%**
DONOR FUNDED	**26.9**	**108.7**	**79.9**	**-28.8**	**-26.5%**
Bilateral Assistance	2.8	34.0	10.0	-24.0	-70.6%
Multilateral	24.1	74.7	69.9	-4.8	-6.4%
proportion of domestic funds	80.9%	56.2%	69.3%		

5.2.1 Domestic Revenue

5.2.1.1 Income and Corporate Taxes

Description	2015 Actual	2016 Revised	2017 Budget	Change on 2016 Revised $	Change %
Tax on Income, Profit and Capital Gains	**1,893,203**	**5,330,120**	**3,970,000**	**-1,360,120**	**-25.5%**
Wages and salaries (Public)	707,501	2,843,435	3,000,000	156,565	5.5%
Wages and salaries (Private)	414,796	1,416,685	820,000	-596,685	-42.1%
Corporate profit tax	770,906	800,000	0	-800,000	-100.0%
Rental Income	0	270,000	150,000	-120,000	-44.4%

The estimates are based only on currently approved and implemented tax collections, with estimates grounded in recent trends:

- **Wages and salaries (public)** is forecast from a zero base, extrapolating from the budgeted expenditures planned for 2017.
- **Wages and salaries (private)** are estimated from trend in 2016 to September, and proposed collections indicated below.
- **Corporate profits tax** is showing as zero for 2017 as it is understood no company profits taxes are being assessed, and therefore the amounts showing in 2016 are incorrectly posted.
- **Rental income** is forecast on trend. A proposal to extend the policy to cover houses was included in the 2016 Revised Budget but no additional amounts appear to be collected. Any increase in 2017 would need to be supported by a plan to extend the coverage.

New policy measures proposed for 2017 are:

- **Wages and salaries (private)**: additional amounts are planned from:
    - A targeted campaign to extend coverage to the Electricity supply; and Hotels - $ 0.32 million
    - Once data is available (by 1 July 2017) income tax collections will be extended to the telecommunications, water supply, and NGO sectors, and to approved foreign workers.

5.2.1.2 Taxes on International Trade

Description	2015 Actual	2016 Revised	2017 Budget	Change on 2016 Revised $	Change %
Taxes on international trade and transactions	**71,141,410**	**80,100,000**	**84,300,000**	**4,200,000**	**5.2%**
Taxes collected at the Port	61,983,251	66,100,000	63,300,000	-2,800,000	-4.2%
Import Tax on Khat	9,158,159	14,000,000	21,000,000	7,000,000	50.0%

Existing policy measures support strong and consistent collections of customs duty. Recent trends have been slightly lower than experienced in 2015, due in part to poor weather at the start of 2016 that made docking of ships difficult, and the election period may be having an impact. Attention will be paid to the collection rates until the end of 2016, and final adjustments made to the forecast before the draft budget is submitted to Parliament. For the time being:

- **Taxes collected at the Port**, based on trend, will be slightly down on 2016 expected collections.
- **Import tax on khat** estimate of $15 million is supported by current trends in collections at the existing rate f $2/Kg.

New policy measures proposed for 2017 are:

- **Petroleum** duty is proposed to increase by 25%, a potential $ 1 million additional tax based on current import rates
- **Tobacco and matches** duty is proposed to be doubled, under agreements currently being discussed with sub-national governments which seek to harmonize rates in all jurisdictions of Somalia. The increased duty assuming no drop in consumption is $300,000.
- **Import tax on khat** is subject to discussions with sub-national governments with a view to harmonizing at the rate of $3 per Kg, a 50% increase in rates charges in Mogadishu today. The increased collections, assuming no drop in consumption is $6 million.

5.2.1.3 Other Domestic Indirect Taxes

Description		2015 Actual	2016 Revised	2017 Budget	Change on 2016 Revised $	Change %
GRAND TOTAL	**Wadarta Guud**	**4,799,955**	**7,855,076**	**56,143,985**	**48,288,909**	**614.7%**
Excise Tax	**Biyaha Sifeysan**	**0**	**120,000**	**120,000**	**0**	
Sales Tax	**Canshuurta Iibka**	**0**	**400,000**	**56,023,985**	**55,623,985**	
Hotels	Qaansheegadka Hoteeladda	0	400,000	1,003,750	603,750	150.9%
Sales tax collected at the Port	Sales tax collected at the Port	0	0	0	0	
Other goods	Other goods	0	0	0	0	
Telecommunications	Isgaarsiinta	0	0	53,400,000	53,400,000	
Consumer Light Industries	Warshadaha Krontadda dhaliya	0	0	1,300,000	1,300,000	
Consumer Water Industries	Shirkadaha Biyaha	0	0	320,235	320,235	
Turnover Tax on Services (Presumptive Tax)	**Canshuurta Macaashka Adeega**	4,799,955	7,335,076	0	-7,335,076	-100.0%
Telecommunications	Isgaarsiinta	4,799,955	5,800,000	0	-5,800,000	-100.0%
Money Transfer Companies	Xawilaadaha	0	400,000	0	-400,000	-100.0%
Consumer Light Industries	Warshadaha Krontadda dhaliya	0	1,039,076	0	-1,039,076	-100.0%
Consumer Water Industries	Shirkadaha Biyaha	0	96,000	0	-96,000	-100.0%

Existing policy forecasts are based on known collections:

- **Excise tax** is currently being collected on mattress production and bottled water. The estimate is based on the current trend from data supplied by the Inland Revenue Department.
- **Sales tax –** see below for turnover taxes.
- **Turnover tax on services** are currently negotiated taxes. The proposal is from 1 January 2017 to require certain industries to commence paying sales taxes based on rates established by the Council of Ministers in 2015. Accordingly the presumptive tax arrangements for Telecommunications and Consumer Light (Electricity) Industries will cease in 2017. Current arrangements for Money Transfer and Consumer Water Industries are not being observed, and there is little prospect of any change in 2017.

New policy measures proposed for 2017 are:

- **Sales tax** arrangements for telecommunications, hotels and electricity supply are being proposed for 2017. The Council of Ministers in 2015 agreed to lower rates than applying in Law No. 2 of 7 January 1984 – 15% for telecoms and electric; and 5% for hotels. Implementing plans are being prepared for the new policy. Expected revenues are $53.4 million (telecommunication); $1.3 million (electric); and $1 million (hotels).

5.2.1.4 Other taxes

Description	2015 Actual	2016 Revised	2017 Budget	Change on 2016 Revised $	Change %
Stamp Sales and Duty	**4,537,716**	**7,843,000**	**10,500,000**	**2,657,000**	**33.9%**
Road Tax	3,286,661	3,000,000	6,000,000	3,000,000	100.0%
Other Stamp Duty	354,742	4,843,000	3,300,000	-1,543,000	-31.9%

Existing policy forecasts are based on observed trends and the full-year impact of process changes introduced during 2016:

- **Road tax** forecast is based on current trends and a recently issued contract to a private company to collect the tax. The expectation is that collection rates will improve from 5% of issued license plates, to 10%.

- **Other stamp duty** – the forecast for 2017 is based on the trend in collection through September 2016.

5.2.1.5 Non-Tax Revenue

Description	2015 Actual	2016 Revised	2017 Budget	Change on 2016 Revised $	Change %
Non-Tax Revenue	**31,904,594**	**38,533,830**	**25,750,000**	**-12,783,830**	**-33.2%**
Administrative Charges	625,988	533,830	150,000	-383,830	-71.9%
Sales of Public Goods and Services	-	6,000,000	-	(6,000,000)	-100.0%
Airport Fees	-	-	0.00	0	#DIV/0!
Harbour Fees	25,070,792	26,000,000	18,000,000	-8,000,000	-30.8%
Sales of Public Goods and Services		6,000,000	0	-6,000,000	-100.0%
Visa Charges and Passports	6,207,814	6,000,000	7,600,000	1,600,000	26.7%

Existing policy forecast are based on trends:

- **Administrative charges** forecast remains at the same nominal levels as expected in 2016. Recent re-training of MDAs on their responsibilities to bank all revenues to the TSA at the CBS is expected to underpin the 2016 revised estimate.
- **Airport and harbour fees** continue to fall behind the trend implied in the 2016 revised forecast and based on trend to the end of September 2016 are forecast to be about $18 million in 2017.
- **Sale of public goods and services** is the revenue head used for asset recoveries from overseas (assets frozen since the 1990's). No returns are anticipated in 2017.
- **Visa charges and passports** are expected to continue at the same rate as in 2016, based on trends.

New policy proposed tax measures for 2017 are:

- **Visa charges and passport** fees are being discussed with sub-national governments with a view to harmonizing and increasing returns from these fees. A proposed departure (exit) tax of $20 per passenger will apply from 1 January 2017.

5.2.2 Donor Revenue

Description	2015 Actual	2016 Revised	2017 Budget	Change on 2016 Revised $	Change %
DONOR FUNDED	**26,916,847**	**108,665,875**	**79,880,758**	**-28,785,117**	**-26.5%**
Bilateral	**2,840,539**	**34,000,000**	**10,000,000**	**-24,000,000**	**-70.6%**
Multilateral	**24,076,308**	**74,665,875**	**69,880,758**	**-4,785,117**	**-6.4%**
WB - Multi-partner Trust Fund (Special Financing Facility)	0	3,705,000	5,430,549	1,725,549	46.6%
WB - Capacity Injection Project	0	4,386,430	1,511,460	-2,874,970	-65.5%
WB - Public Financial Management	0	10,030,000	10,305,000	275,000	2.7%
World Bank projects including RCRF	22,280,583				
RCRF - Salary	0	16,500,000	13,000,000	-3,500,000	-21.2%
RCRF - CIP	0	2,000,000	3,000,000	1,000,000	50.0%
RCRF - non Salary	0	400,000	3,000,000	2,600,000	650.0%
RCRF - Health and Education	0	3,950,000	2,100,000	-1,850,000	-46.8%
RCRF - sub-National	0	8,580,000	12,300,000	3,720,000	43.4%
RCRF - Project expenses	0	1,470,000	1,890,758	420,758	28.6%
UN Window (PBF)	0	3,500,000	1,997,810	-1,502,190	-42.9%
WB - ICT Sector Support	0	5,900,000	2,243,937	-3,656,063	-62.0%
AfDB - Economic and Financial Governance	795,746	2,977,066	2,293,633	-683,433	-23.0%
European Union	0	5,850,000	7,430,500	1,580,500	27.0%
SCORE (World Bank)	0	3,297,110	2,797,110	-500,000	-15.2%
Somali Urban Investment Planning Project	0	800,000	580,000	-220,000	-27.5%
District Reconstruction Project (UN) SUPP	0	1,320,269	0	-1,320,269	-100.0%

5.2.2.1 Bilateral

- The only assumed payment in 2017 under existing bilateral agreements of from Turkey – the balance of the agreed $2 million per month, for 1 year. 5-months is anticipated to be received in 2017.

5.2.2.2 Multilateral

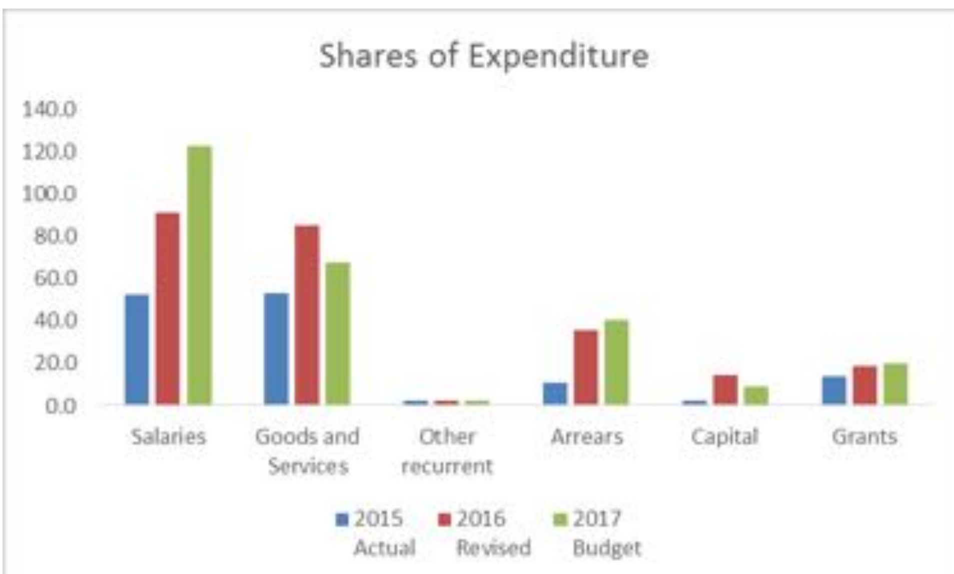
- An adjustment ($2.1 million) has been made to estimate the amount of funds in remaining in the Donor Bank accounts which are part of the Treasury Single Account as at 31 December 2016 and will be drawn-down during 2017.

6 EXPENDITURES

6.1 RECENT TRENDS

Given the need to cash limit budget execution since 2013, the trends in expenditures are not reflective of the government's intentions in regard to priority areas of spending, or budget repair strategies. Cash limiting policy is enshrined in the annual budget law (Appropriation) and has wage compensation payments to security force members as the highest priority, followed by other wage compensation payments. Settlement of arrears from earlier years is the first expenditure to be suspended under the sequestration rules, however for 2015 and 2016 a number of large arrears payments were made in the 1st quarter, despite cash rationing being in place. This action generated new expenditure arrears in 2015 and 2016.

Compositional issues with government expenditure continue to give rise to concern. Expenditure in FGS is concentrated on wages and civil service goods and services support costs. The share of wage compensation (refer to the chart below) has been as high as half of expenditure while goods and services are about 40%, noting that arrears repayments are heavily skewed towards past-due staff costs. This concentration of spending on wages and support costs crowds out resources available for interest payments, subsidies, social benefits and capital investment. Staff numbers forecast for 2017 have been capped at the 2016 budget level.



Infrastructure investment and the provision of goods and services to the citizens is being crowded out by spending on wages and support costs. Investment in schools, hospitals, and clinics is vital for the government to meet its obligation to provide essential goods and services, while investment in roads, bridges, ports, and airports supports economic growth. Additionally, the failure of essential services works as an impediment to companies and individuals to pay taxes, since they rightly observe that they don't get anything in return for their taxes aside from paying the wages of parliamentarians and civil servants.

The share of wages in Somalia (FGS) —about 45 percent—is higher than in comparable countries. Wages as a share of expenditure are on average about 30 percent in Africa (source: IMF Box 2, Table 2 in 2015 Article 4 report) and at a similar proportion in low income countries of the World. Accordingly, the FGS should plan for and take measures to correct this situation, by a focus on containing the wage bill in the short term and identify longer term policies to address the crowding out situation. Once the wage bill is brought under control, it will enable spending to be directed on service delivery to citizens, including social safety net programs, and investment expenditure.

Box 2. Table 2. Public Wage Bill International Comparison

	Wage bill, *as percent of*:		
	Spending	Revenue	GDP
Somalia	45.0	60.0	0.9
Kenya	37.7	38.4	8.1
Burundi	25.4	60.2	11.2
Tanzania	23.3	37.5	6.5
Eritrea	23.1	51.0	10.0
Malawi	16.0	17.8	5.8
Rwanda	13.0	12.7	3.5
Uganda	12.5	11.8	1.7
Africa	*30.4*	*29.5*	*6.5*
Low-Income Countries	*28.6*	*27.9*	*5.2*

Note: General government, consolidated central government or budgetary central government, annual averages for 2000-08 depending on data availability. For Somalia data correspond to 2014 actual budget.
Source: IMF.

The FGS wage bill is overlarge due to a number of factors. Firstly, there are high security costs, which would be expected, over time, to decline as the situation improves (see below). Secondly, there is strong and continuing growth in civil servant numbers.

Staff numbers and Growth 2012-16

Staff Numbers					Growth			
2012 Actual	2013 Actual	2014 Actual	2015 Revised	2016 Budget	2013 Actual	2014 Actual	2015 Revised	2016 Budget
2,896	2,849	3,672	4,674	4,920	-1.6%	28.9%	27.3%	5.3%
1759	**1716**	**2014**	**2558**	**2,719**	**-2.4%**	**17.4%**	**27.0%**	**6.3%**
33	**38**	**90**	**154**	**154**	**15.2%**	**136.8%**	**71.1%**	**0.0%**
884	**830**	**1182**	**1408**	**1,448**	**-6.1%**	**42.4%**	**19.1%**	**2.8%**
220	**265**	**386**	**554**	**599**	**20.5%**	**45.7%**	**43.5%**	**8.1%**

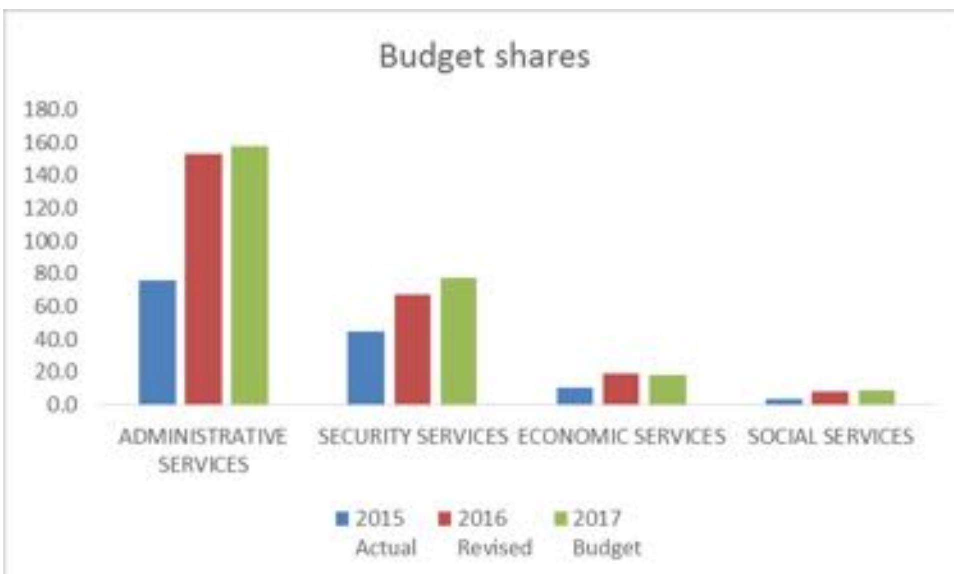
Thirdly, there has been higher growth at the top end of the civil service pay scale (Grade A staff) – which increased by 47.1% from 2014 to 2016, a much faster rate than overall. Fourthly, pay scales for Ministers, Parliament Members, and Commissioners are considerable higher than compensation rates for civil servants. Finally, since 2013 the number of Ministry, Department and Agencies (MDA) has increased from 32 to 63, including the addition of 7 Commissions. Given the embryonic state of fiscal federalism discussions it is not clear what role and functions all these new MDAs are performing.

In 2017 the salary centric budget is under increasing expenditure pressure with the addition of 54 Senate Members. These will add $2 million at current rates of compensation to the salary bill and more again to the overall budget when account is taken of related security, staff support, accommodation, vehicle and other costs for the additional 54 members.

Options for addressing the wage composition problem in FGS budget require political support to implement. Options include:

- Requiring the Civil Service Commission to review and address the disparity between civil servant wages and parliamentary, ministerial and commissioner allowances and make recommendations to close the gap including examining the option to link compensation rates to civil service wages
- Undertake a functional analysis of the activities of MDAs to understand what functions are being performed, with a view to eliminating duplicate or low priority activities
- Seeking funding for a scheme of redundancy to encourage under-employed staff to exit the civil service
- Place provision of a social safety net and pension scheme for civil servants as priority expenditure assignments once budget revenues grow
- Maintain a strict cap on staff numbers, requiring MDAs to fund hiring of additional staff from identified savings within their own portfolio

Security costs are also a dominate share of the budget, and the position in 2016 is illustrated in the chart below:



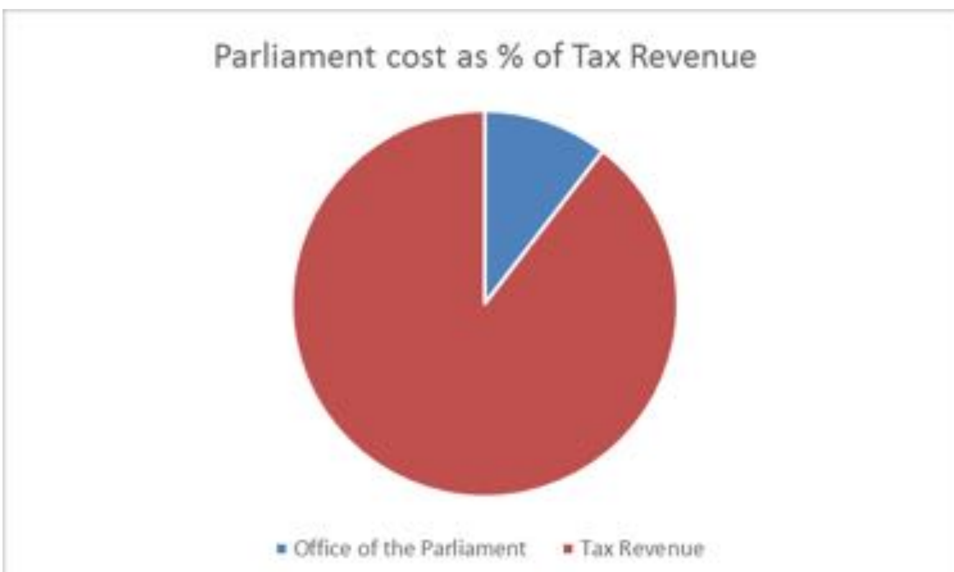
For 2017 the FGS will continue the agreement with the international community over funding for the costs of security in FGS, excluding peacekeeping costs. This protocol establishes the full costs of all payments due to security forces, and allocates funding responsibilities. The budgetary impact of these changes is for the share of security related costs to decrease from 45% in 2014 to 36.9% in 2017. Unfortunately the fiscal space created by the new security funding protocol has been mainly applied to increased costs of government, rather than program service delivery. Further reforms to the sector are well advanced, as outlines in Section 7 below.

6.2 POLICY MEASURES

There are a number of important expenditure policy impacts on the 2017 Budget. Firstly in discussions with the international community in 2015-16 agreement was reached on the total costs for security services in FGS, and within that total cost, the elements that will be supported by the international community, either through funds on-budget, or by direct payment using their own systems and treated as off-budget.

Second: in seeking 2017 budget submissions from MDAs, the guidance issued by the Ministry of Finance was that expenditure forecasts needed to be limited to the level of funds approved by Parliament in the 2016 Revised Budget. The 2016 Revised Budget included deferral of 2 months payments for salaries and allowances to 2017. Under agreements with the IMF (SMP) is the requirement for budgets to be balanced on a cash basis and to be formulated so that new arrears are not generated. Accordingly the 2017 Budget will need to provide for 12-months of salary and allowances payments, as well as funding to pay the 2016 salary shortfall.

The 2017 Budget provides for the additional costs of the Senate chamber, with 54 members. The chart below illustrates the share of tax revenue to be consumed by Parliament in 2017, estimated at 18.6%. In this context it is critical for the new parliament to address the Telecommunications Bill which seeks to regulate that sector in line with international practice, and gain Somalia it's rightful share of dividend from the sector. The sum of all taxes and fees estimated payable by the sector in terms of spectrum fees, licenses, income and sales taxes, and customs duty is of the order of $100+ million per annum, compared to current collections from the sector of about $5 million per annum.



Finally, the provision for repayment of expenditure arrears in the draft 2017 Budget is sufficient to cover 2016 wage and allowances arrears plus a small buffer. The intention is for all additional revenues received, from windfall gains and from increased collection over and above the budgeted forecasts, to be directed to repayment of arrears.

6.3 THE 2017 ESTIMATES

The planned 2017 Budget expenditures, compared with data since 2015, are presented in the following table:

(million US$)	2015 Actual	2016 Revised	2017 Budget	Change $	Change on Budget %
EXPENDITURE	135.5	248.3	262.7	14.3	5.8%
RECURRENT EXPENDITURE	**133.2**	**233.6**	**253.5**	**19.9**	**8.5%**
Compensation of employees	52.9	91.7	123.1	31.4	34.2%
Use of goods and services	53.1	85.6	67.9	-17.8	-20.7%
Grants	13.8	18.7	19.9	1.2	6.7%
Contingency	2.6	2.1	2.1	0.0	-0.8%
Repayment of arrears and advances	10.8	35.4	40.5	5.0	14.2%
CAPITAL EXPENDITURE	**2.3**	**14.7**	**9.2**	**-5.6**	**-37.8%**
Capital	2.3	14.7	9.2	-5.6	-37.8%
BALANCE	**0.0**	**0.0**	**-2.1**	**-2.1**	
compensation as share of total spending	39.1%	36.9%	46.9%		

6.3.1 Compensation of employees

The cost of compensation for employees is forecast to increase on the revised forecast for 2016, reflecting a number of underlying measures – a provision for all 12 months in 2017, whereas only 10 months were provided for in the revised 2016 budget; the provision for the first time for a Senate chamber on Parliament of 54 members; and payment of $30 food allowance to the security forces through the compensation system[2].

Staff numbers are expected to remain at the 2016 levels. The table below shows civil service staff numbers from 2013 to 2017:

Description	2013 Actual	2014 Actual	2015 Actual	2016 Revised	2017 Budget
Sector	**2,774**	**3,592**	**4,593**	**4920**	**4896**
Administration Sector	1,641	1,934	2,477	2719	2719
Security Sector	38	90	154	154	143
Economic Sector	830	1,182	1,408	1,448	1,435
Social Sector	265	386	554	599	599

6.3.2 Goods and services

The table below shows the breakdown of the goods and services (running costs) of the FGS for 2017.

[2] Previously paid under the Goods and Services component

Description	2016 Revised	2017 Budget	Change on 2015 Revised $	Change on 2015 Revised %
Use of goods and services	**85,485,427**	**67,880,314**	**-17,605,113**	**-20.6%**
General expenses	**20,787,135**	**19,988,530**	**-798,605**	**-3.8%**
Utilities	5,025,640	4,835,640	-190,000	-3.8%
Rent	511,300	461,300	-50,000	-9.8%
Fuel and lubricants	4,440,452	4,345,452	-95,000	-2.1%
Repairs and maintenance	1,840,538	1,651,538	-189,000	-10.3%
Office materials and other consumables	3,260,119	3,290,737	30,618	0.9%
Travel expenses	5,709,087	5,403,863	-305,224	-5.3%
Education and training expenses	**2,794,015**	**1,493,283**	**-1,300,732**	**-46.6%**
Education expenses	1,327,100	157,100	-1,170,000	-88.2%
Training expenses	1,466,915	1,336,183	-130,732	-8.9%
Consulting and professional fees	**13,979,360**	**14,596,441**	**617,081**	**4.4%**
Consulting and professional fees	13,534,360	14,186,441	652,081	4.8%
Audit fees	445,000	410,000	-35,000	-7.9%
Finance costs	**3,064,818**	**3,185,025**	**120,207**	**3.9%**
Bank commissions	3,064,818	3,100,025	35,207	1.1%
Insurance charges/premium	-	85,000	85,000	
Specialized materials and services	**6,403,515**	**6,403,515**	**0**	**0.0%**
Health and hygiene	960,000	960,000	0	0.0%
Military materials, supplies and services	1,632,000	1,632,000	0	0.0%
Other specialized materials and services	1,678,515	1,678,515	0	0.0%
Special operational services	2,133,000	2,133,000	0	0.0%
Other expenses	**38,456,583**	**22,213,520**	**-16,243,063**	**-42.2%**
Other expenses	38,456,583	22,213,520	-16,243,063	-42.2%

6.3.3 Grants; contingency and arrears repayments

Grants to sub-national governments are funded by the World Bank, and are subject to performance agreements based on PFM reforms.

Earmarked payment to Mogadishu Local Government is based on a set % hypothecation of customs collections at the Port, which is estimated to total $6.1 million for 2017, a decrease of $2.6 million over the expected payments in 2016 which were inflated by a special one-off payment.

Description	2016 Revised	2017 Budget	Isbadalka	% Isbadalka
Grants	**17,180,000**	**18,350,000**	**1,170,000**	**6.8%**
To sub-national government:				
Puntland	-	4,900,000.00	4,900,000.00	
Jubaland	-	2,600,000.00	2,600,000.00	
Interim South-West Adminsitration	-	1,900,000.00	1,900,000.00	
Interim Galmudug Administration	-	1,900,000.00	1,900,000.00	
Hirsabelle	-	1,000,000.00	1,000,000.00	
Sub-national governments - not specified	8,580,000.00	-	(8,580,000.00)	-100.0%
To Mogadishu local government:	8,600,000.00	6,050,000.00	(2,550,000.00)	-29.7%

6.3.4 Capital expenditure

All capital payments for 2017 are expected to be funded by earmarked revenues provided on-budget by the international community.

Description	2016 Revised	2017 Budget	Isbadalka	% Isbadalka
Capital	14,749,826	9,179,648	-5,570,178	-37.8%

6.4 Estimates of MDA by Sector

The 2017 fiscal year total expenditure is amounted to $262.7 million, including donor projects.

To assist understanding of the functions of government supported by the budget, an interim classification of activities into four broad functional thematic areas has been developed as an interim step to Somalia adopting fully the international Classification of the Functions of Government (COFOG). These interim groupings are as follows, and their budget allocations are shown in the table below:

(million US$)	2015 Actual	2016 Revised	2017 Budget
ADMINISTRATIVE SERVICES	75.8	153.1	157.6
	55.9%	61.6%	60.0%
SECURITY SERVICES	45.2	67.7	77.5
	33.3%	27.3%	29.5%
ECONOMIC SERVICES	10.8	19.5	18.6
	8.0%	7.8%	7.1%
SOCIAL SERVICES	3.8	8.1	9.0
	2.8%	3.3%	3.4%
GRAND TOTAL	135.5	248.3	262.7
Security Sector share of total	33.3%	27.3%	29.5%

The **Administrative Sector i**ncludes activities which are indispensable to the existence of the state, including the President, Parliament, the Prime Minister, Foreign Affairs, Finance, Planning, Interior, Religious Affairs, and Justice Ministries, and the judiciary. The major policy change in 2017 is the addition of funding for 54 Senators.

The **Security** Sector received the second largest share of the total expenditure, that's $77.5; which has been a consistently large share but decreasing since 2014. This category includes the armed forces; Ministries of Defence and National Security; the Police Force; and Immigration Department. As shown in Chapter 7.2 below, there has been considerable discussion and agreement with the international community during 2015/16 over the funding arrangements for the security sector, and reforms are continuing, in particular to establishing FGS biometric testing and electronic payments. See Chapter 7.2 for further details.

The **Economic Sector** is forecast to receive an allocation of $18.6 million for 2017. The economic sector includes the Ministries of Water and Energy; Minerals; Agriculture; Livestock and Forestry;

Fisheries; Information; Post and Telecommunications; Public Works and Reconstruction; Transport and Aviation; Transport and Ports; and Industry and Commerce.

Activities in this the **Social Sector** comprise administrative, management, operation and support of health, education and rehabilitation of related activities. A total of $9 million is allocated for the fiscal year 2017. Costs to support the Ministries of Health; Education; Labor and Social Affairs; Youth and Sport; and Women and Human Rights are included here.

The details of recent spending by institutional unit is shown in the following table:

Madaxa	HAY'ADAHA	2016 Revised	2017 Budget
		248,327,901	**262,650,040**
100	**HAY'ADAHA ADEEGGA MAAMULKA GUUD**	**153,052,514**	**157,619,278**
10101	**Xafiiska Madaxtooyada**	**4,170,167**	**4,573,520**
102	**Golaha Shacabka**	**13,884,882**	**18,106,036**
10201	Xafiiska Baarlamaanka	3,872,370	4,308,324
10202	Xubnaha Baarlamaanka	10,012,512	13,797,712
103	**Ra'iisul Wasaaraha**	**9,842,933**	**7,094,448**
10301	Xafiiska Ra'iisul Wasaaraha	5,063,503	5,134,608
10302	Agaasinka Bii'ada iyo Duur joogta	393,000	448,380
10303	Mashruuca CIP	4,386,430	1,511,460
104	**Arimaha Dibedda**	**6,113,742**	**5,775,920**
10401	Wasaaradda Arrimaha Dibedda	1,778,142	1,949,720
10402	Safaaradaha	4,335,600	3,826,200
105	**Maaliyadda Iyo Mashaariicda**	**91,534,428**	**96,014,890**
10501	Wasaaradda Maaliyadda	6,967,443	5,573,112
10502	Xisaabiyaha Guud	797,200	901,440
10503	Adeegga Guud Ee Dowladda	57,770,191	63,489,110
10504	Mashruuca SFF	6,558,750	7,428,360
10505	Mashruuca PFM	10,030,000	10,305,000
10506	Mashruuca EFGP	2,977,067	2,980,000
10507	Mashruuca RCRF	3,136,667	2,040,758
10508	Mashruuca SCORE	3,297,110	3,297,110
10601	**Wasaaradda Qorsheynta Iyo Isk. Caalamiga**	**976,978**	**1,116,288**
107	**Arrimaha Gudaha iyo Xuduudaha**	**12,570,469**	**8,092,240**
10701	Wasaaradda Arrimaha Gudaha iyo Fadaraalka	9,822,200	6,567,440
10702	Guddiga Qaxootiga Qaranka iyo Barakacayasha	406,000	472,800
10703	Hay'adda Maareynta Musiibooyinka	222,000	252,000
10704	Mashruuca Dib u dejinta Degmooyinka	1,320,269	0
10705	Mashruuca SUIPP	800,000	800,000
10801	**Wasaaradda Arrimaha Diinta iyo Awqaafta**	**602,429**	**648,900**
109	**Garsoorka iyo Cadaaladda**	**6,596,850**	**8,844,420**
10901	Wasaaradda Caddaaladda	490,110	553,332
10902	Ciidanka Asluubta	4,511,000	6,441,000
10903	Maxkamadda Gobollka Banaadir	1,060,798	1,243,272
10904	Maxkamadda Racfaanka	181,783	211,824
10905	Guddiga Adeegga Garsoorka	156,160	172,992
10906	Maxkamadda Dastuuriga ah	197,000	222,000
11001	**Maxkamdda Sare**	**620,200**	**614,640**
11101	**Xeer-ilaaliyaha Guud**	**910,950**	**1,028,340**
11201	**Garyaqaanka Guud**	**442,820**	**490,584**
11301	**Hanti-dhowrka Guud**	**1,230,138**	**1,346,016**
11501	**Wasaaradda Dastuurka**	**425,360**	**481,632**
116	**Guddiyada Madaxa Banaan**	**3,130,170**	**3,391,404**
11601	Guddiga M. Banaan Ee Xudùdaha & Federalka	562,000	636,000
11602	Guddiga M. Banaan Ee Dibu Heshiisiinta Q.	422,460	492,552
11603	Guddiga Madaxa Banaan ee Doroshoyinka Q.	646,471	498,000
11604	Guddiga M. Banaan Ee Xuquuqul Adanaha	342,000	396,000
11605	Guddiga M. Banan Ee Dibu Eegista iyo Hir. Dasturka	513,059	610,236
11606	Guddiga Madaxa Banaan Ee Shaqalaha Rayidka	644,180	758,616

Madaxa	HAY'ADAHA	2016 Revised	2017 Budget
200	**HAY'ADAHA ADEEGGA DIFAACA IYO AMNIGA**	**67,677,489**	**77,475,064**
201	**Difaaca**	**38,255,490**	**41,485,768**
20101	Wasaaradda Gaashaandhiga	990,750	1,071,568
20102	Taliska Ciidanka Xooga Dalka	35,834,740	39,298,200
20103	Maxkamadda Ciidamadda	1,320,000	996,000
20104	Hay'adda Naafada iyo Agoonta C. Qalabka Sida	110,000	120,000
202	**Amniga**	**29,421,999**	**35,989,296**
20201	Wasaaradda Amniga Qaranka	2,420,426	2,558,296
20202	Taliska Ciidanka Booliska	16,335,160	19,983,960
20203	Hay'adda Nabadsugidda Qaranka	9,126,413	11,725,040
20204	Hay'adda Socdaalka & Jinsiyadaha	1,540,000	1,722,000
300	**HAY'ADAHA ADEEGGA DHAQAALAHA**	**19,452,212**	**18,595,997**
30101	**Wasaaradda Tamarta & Biyaha**	**584,070**	**684,084**
30201	**Wasaaradda Macdanta**	**1,408,690**	**1,486,018**
30301	**Wasaaradda Beeraha**	**646,020**	**758,424**
304	**Wasaaradda Xoolaha**	**640,530**	**751,836**
305	**Kheyraadka Badaha**	**1,224,990**	**1,426,788**
30501	Wasaaradad Kallumaysiga & Khey. Badda	771,650	909,180
30502	Hay'adda Cilmi Baadhista Badaha Soomaaliyeed	356,390	413,268
30503	Mashruuca Horumarinta Xeebaha iyo Kalluumeysiga	96,950	104,340
30601	**Wasaaradda Warfaafinta**	**3,166,110**	**3,535,332**
307	**Wasaaradda Boostada & Isgaadhsiinta**	**6,747,163**	**4,124,979**
30701	Wasaaradda Boostada & Isgaadhsiinta	1,013,830	1,182,111
30702	Mashruuca ICT	5,733,333	2,942,868
30801	**Wasaaradda Howlaha Guud iyo Dib-u-dhiska**	**671,400**	**768,880**
309	**Gaadiidka Cirka & Duulista Hawadda**	**1,365,960**	**1,606,752**
30901	Wasaaradda Gaadiidka & Duulista Hawadda	790,830	932,196
30902	Hay'adda Saadaasha iyo Duulista Hawadda	575,130	674,556
310	**Gaadiidka Badda & Dekedda**	**1,751,770**	**1,966,044**
31001	Wasaaradda Dekadaha & Gaadiidka Badda	891,670	956,724
31002	Dekadda Xamar	860,100	1,009,320
31101	**Wasaaradda Ganacsiga iyo Warshadaha**	**1,245,508**	**1,486,860**
400	**HAY'ADAHA ADEEGGA BULSHADA**	**8,145,687**	**8,959,701**
40101	**Wasaaradda Caafimaadka**	**1,503,498**	**1,456,480**
402	**Waxbarashadda & Cilmi baarista**	**4,678,350**	**5,174,909**
40201	Wasaaradda Waxbarashadda	3,075,235	3,307,584
40202	Jaamacadda Umadda	1,206,105	1,418,913
40203	Hay'adda Cilmi, Fanka iyo Sugaanta	225,010	254,412
40204	Akademiya Goboleedka Afka Soomaaliga	172,000	194,000
40301	**Wasaaradda Shaqada & Arrimaha Bulshada**	**844,057**	**1,010,088**
40401	**Wasaaradda Isboortiga & Dhalinyarada**	**488,263**	**577,200**
40501	**Wasaaradda Hawenka & Hor. Xuq. Adanaha**	**631,520**	**741,024**

7 SPECIAL PRESENTATIONS

The purpose of this Chapter is to indicate in two dimensions, with development assistance priorities identified in the National Development Plan and for the security sector, the total resources planned to be deployed by the FGS and its international partners.

7.1 THE NATIONAL DEVELOPMENT PLAN

This section presents an estimate of the total level of resources being deployed by the FGS and the international community. Missing from the picture at the present time is a consolidated picture of domestic resources being applied by the sub-national governments. Work is underway with the assistance of the IMF and international partners including the World Bank and DfID, to produce consolidated national accounts for Somalia.

In the Use of Country Systems Interim Roadmap, the government requested that 15% of external development spending be channeled through the Somali treasury, including SDRF national windows. Development partners are understandably wary about using country systems as is evident by the failure to reach the 15% target, but government systems are likely to remain weaker when there is an overreliance on parallel systems to deliver aid for development. A contributing factor to weak institutions is the lack or minimal use of country systems and engagement of government institutions in the planning and implementation of programs. As such, the use of country systems will strengthen institutions and requires action by governments to reduce fiduciary risk and for development partners to find mechanisms allowing them to accept greater risk in delivering aid to fragile states.

Over the past year, the government has made considerable progress in strengthening country PFM systems. The government has formed an inter-ministerial budget strategy committee that oversaw the development of a credible and balanced 2016 budget based on sound fiscal principles. The Somali Financial Information Management System (SFMIS) is providing greater transparency and enhanced controls, and vendor payment reforms have resulted in decreasing the level of advances. Payroll is biometric and has been semi-automated with use of SFMIS, and parallel reforms are in train for the security sector.

The reliability of on-treasury aid, especially for government recurrent costs, is critical for fiscal planning. This issue is causing delays in critical security sector payment in 2016, with pledged and budget on-budget security funding being delayed.

Planning for development in Somalia is captured in the National Development Plan (NDP) 2017-19.

The following data is arranged to align in the table below is arranged according to the international classification of the functions of government (COFOG). COFOG classifies government expenditure data by the purpose for which the funds are used. The classification facilitates data mapping and comparisons, and is used in budget preparation to assemble time series data for analysis purposes.

Table 1 shows for 2016 Forecast and 2017 Draft Budget the resources under the control of the Federal Government of Somalia, which includes some international assistance, and assistance indicated to be provided by Donors off-budget, with the total indicating the level of resources being deployed to the various functional activities undertaken by government.

Resource Statement; Federal Government of Somalia plus International Community (1)							
		2016			2017		
Functions of Government		FGS Budget Expenditure	Donor Off-budget Expenditure	Total Resources - FGS + Donors	FGS Budget Expenditure	Donor Off-budget Expenditure	Total Resources - FGS + Donors
1. GENERAL PUBLIC SERVICES		134.6	265.5	400.1	141.5	150.1	291.6
2. DEFENCE		38.1	70.7	108.9	41.4	3.7	45.1
3. PUBLIC ORDER AND SAFETY		47.0	49.5	96.5	52.6	8.2	60.8
4. ECONOMIC AFFAIRS		17.0	219.1	236.2	16.0	297.5	313.5
5. ENVIRONMENTAL PROTECTION		0.5		0.5	0.6		0.6
6. HOUSING AND COMMUNITY AMENITIES		2.1		2.12	0.8		0.80
7. HEALTH		1.5	130.9	132.4	1.5	108.6	110.05
8. RECREATION,CULTURE AND RELIGION		1.1	0.5	1.6	1.2		1.2
9. EDUCATION		4.7	28.5	33.2	5.2	12.6	17.8
10. SOCIAL PROTECTION		1.7	6.9	8.6	2.0	3.6	5.6
Not classified			27.8			13.6	
Grand Total		**248.3**	**799.5**	**1047.8**	**262.7**	**598.0**	**860.6**

The following table which is provided by the technical assistance team supporting the Aid Coordination Unit shows assistance provided on and off-budget by international development partners for the years 2015 – 2017, and is displayed according to the NDP sectors.

All Donor Assistance 2016-2017 - by NDP Sectors			
Category	**Expected Spending 2015**	**Expected Spending 2016**	**Expected Spending 2017**
Peace, Security & Rule of Law	170,438,328	203,699,649	56,764,742
Building Effective & Efficient Institutions	91,797,454	130,092,855	75,730,382
Inclusive & Sustainable Economic Growth	38,155,072	86,084,099	72,549,601
Social & Human Capital	149,123,562	167,973,532	128,041,237
Infrastructure Restoration & Development	64,973,428	42,038,205	46,668,349
Building National Resilience Capacity	75,954,712	141,874,335	204,637,422
Other	30,127,595	27,706,732	13,561,679
Total	**620,570,152**	**799,469,406**	**597,953,413**

The final table below provides a geographic breakdown of all development assistance by region.

Category/Region for 2016 Estimate	**Puntland**	**Somaliland**	**Interim Juba Administration**	**Interim South-West Adminsitration**	**Interim Galmudug Administration**	**Benadir**	**Hiraan & Middle Shabelle**	**FGS**	**Not Specified**	**Total**
Peace, Security & Rule of Law	3,992,453	4,804,298	5,558,243	5,394,857	1,619,233	3,852,062	3,075,380	3,961,208	24,507,008	**56,764,742**
Building Effective & Efficient Institutions	12,357,937	9,486,912	4,523,081	3,587,228	2,723,836	430,682	2,394,519	35,372,870	4,852,885	**75,729,949**
Inclusive & Sustainable Economic Growth	6,329,178	12,238,271	3,990,620	8,170,621	2,015,766	2,635,388	7,996,693	7,805,152	21,386,662	**72,568,351**
Social & Human Capital	23,678,475	31,846,840	10,223,726	8,386,675	6,205,087	15,428,361	10,268,493	2,976,457	18,991,230	**128,005,344**
Infrastructure Restoration & Development	4,980,077	20,204,325	2,006,991	5,756,455	714,808	5,270,750	1,556,460	5,094,202	1,083,333	**46,667,402**
Building National Resilience Capacity	17,526,221	34,749,486	32,041,311	27,702,727	21,570,940	25,867,320	23,654,362	313,529	21,211,526	**204,637,422**
Other	2,253,931	2,609,038	2,266,868	1,288,838	453,489	1,406,063	173,468	1,718,769	1,403,342	**13,573,805**
Total	**71,118,271**	**115,939,171**	**60,610,840**	**60,287,399**	**35,303,159**	**54,890,626**	**49,119,376**	**57,242,188**	**93,435,986**	**597,947,015**

A number of options are available to fund the NDP. For example:

1. From the FGS budget these are aspirational medium term fiscal objectives mentioned in paragraph 3.4 above: to increase revenue as a share of GDP; to increase domestic revenues so they cover operating costs of government by 2015; reduce salaries share of the budget to 35% by 2025; and to increase capital investment to be 25% of the budget by 2025.
2. It may be agreed and warranted to hold a pledging conference with the international community, to identify funding for the NDP.
3. The African Development Bank Group (AfDB) has approved a framework document for the establishment of the AfDB Multi-Partner Somalia Infrastructure Fund, which would fund projects from the NDP.

The Somalia Infrastructure Fund will mainly focus on infrastructure rehabilitation and development in Somalia, with specific investments in the Energy, Water & Sanitation, Transport and ICT sectors, as well as related institutional capacity-building. These investments are critical for rebuilding Somalia's economy, and will help create employment opportunities and establish a conducive environment for peace and state-building in the country. The Bank's comparative advantages in infrastructure, particularly its ability to intermediate development finance and convene dialogue on policy and institutional issues, positions itself well for scaling-up the provision of infrastructure services in Somalia.

Over the last two years, the AfDB has made significant progress towards establishing the Fund. Infrastructure needs assessments have been completed and validated for all the Energy, Water & Sanitation, Transport and ICT sectors. Findings from these assessments have now been consolidated and discussed with the Somali Authorities and other stakeholders to develop an initial (five-year) pipeline of projects (of about US$ 350 million) to be financed through the Fund. This pipeline of projects will also form the core of projects under the Infrastructure Pillar of Somalia's new National Development Plan, 2017-2019.

7.2 CONSOLIDATED SECURITY BUDGET

The security sector is the most significant budgetary cost component of the Federal Government of Somalia. This exacerbates the fiscal significance of the security sector and indicates the vital importance for the government to gain a better understanding of the overall funding structure and external contributions to this sector.

In 2015, the lack of knowledge and homogeneity of budget execution processes within the security sector created difficulties in planning and budget formation, as well as in implementing controls and reporting. There was a need to streamline and harmonize the various FGS salaries and donor stipend programs to better align with government budget and needs. Discussion with the 4 donors providing stipends and rations payment to the security sector to top up the government salaries and allowance took place during 2015 and 2016, with a view to establish a transparent budget process so that stipend support can be aligned to fill budget

As we move towards sustainability in the long-term as government revenues increase and financial systems are improved, we expect that the portion of the security budget funded by the government will gradually increase, while the portion funded by the donors will decrease.

The security sector, and most particularly the Armed Forces, is severely constrained by the current nature of the payment system in Somalia, which is mainly based on cash transactions. This poses both security and geographical constraints, especially when it comes to payments of wages to security personnel outside of the capital. Harmonized procedures are lacking, but so are some fundamentals such as reliable personnel databases and harmonized payment practices. Financial management systems for the security sector must urgently be strengthened so that paymenyts to the security sector can be harmonized, streamlined for efficiencies and better aligned with actual needs.

To effect improvements in security payment processes the United Kingdom Department for International Development (DfID) has engaged a consulting firm to review the finance and governance structure of the security sector to determine roles and responsibilities as well as oversight and reporting structures of financial management. The firm has prepared a plan to bring together the biometric systems for registration and payment to be used for establishing verifiable and active numbers of the security forces for making both FGS salary and donor supported stipends payments. The DfID project will reform payroll processes to include the minimization of cash payments and biometric verification in the short-term and gradual shift to more automated systems and use of bank transfers in the long-term. Also the payroll reform will develop protocols for preparation and issuance of regular reporting on payroll to government and other stakeholders.

This vital reform to biometric and electronic payments will be implemented progressively over coming months of 2016 and into the early part of 2017. Some policy issues such as the appropriate age profile for the security forces and retirement/redundancy arrangements make take a longer time-frame to decide and implement.

The table below indicates the source of funding for the consolidated security budget in 2017 compared to 2016.

Source of Funds	2016 Revised	2017 Budget
Total Security Budget	**$ 89,517,513**	**$ 98,275,400**
On- Budget Funds	**$ 65,807,313**	**$ 77,448,200**
Domestic Revenues	**$ 59,957,313**	**$ 70,017,700**
Donor On-Budget Funds	**$ 5,850,000**	**$ 7,430,500**
European Union	$ 5,850,000	$ 7,430,500

In 2017 the funds will be applied to meet the costs of the Somali National Army, the Police, the Custodian Corps, and the National Security Force. The table below indicates the estimated total funding planned for 2017, with the FGS portion to be included in the Appropriation Act.

MEELAHA LAGA DEEQAYO MIISAANIYADDA	2016 Revised	2017 Budget
Total Security Budget	**$ 89,517,513**	**$ 98,275,400**
Armed Forces	**$ 59,544,940**	**$ 60,125,400**
Compensation of employees	**$ 43,002,700**	**$ 50,151,000**
Wages & salaries	**$ 19,292,500**	**$ 29,323,800**
Stipends	**$ 23,710,200**	**$ 20,827,200**
Use of goods and services	**$ 16,542,240**	**$ 9,974,400**
General expenses	**$ 1,044,000**	**$ 1,044,000**
Specialized materials and services	**$ 1,932,000**	**$ 1,932,000**
Other expenses	**$ 13,566,240**	**$ 6,998,400**
Police	**$ 16,335,160**	**$ 19,983,960**
Compensation of employees	**$ 9,175,000**	**$ 16,001,880**
Wages & salaries and Stipends	**$ 9,175,000**	**$ 16,001,880**
Use of goods and services	**$ 7,160,160**	**$ 3,982,080**
General expenses	**$ 612,000**	**$ 612,000**
Specialized materials and services	**$ 948,000**	**$ 948,000**
Other expenses	**$ 5,600,160**	**$ 2,422,080**

MEELAHA LAGA DEEQAYO MIISAANIYADDA	2016 Revised	2017 Budget
Custodian Corps	**$ 4,511,000**	**$ 6,441,000**
Compensation of employees	**$ 1,625,000**	**$ 4,680,000**
Wages & salaries	**$ 1,625,000**	**$ 4,680,000**
Use of goods and services	**$ 2,886,000**	**$ 1,761,000**
General expenses	**$ 276,000**	**$ 276,000**
Specialized materials and services	**$ 360,000**	**$ 360,000**
Other expenses	**$ 2,250,000**	**$ 1,125,000**

National Security Force	**$ 9,126,413**	**$ 11,725,040**
Compensation of employees	**$ 4,573,333**	**$ 8,780,800**
Wages & salaries	**$ 4,573,333**	**$ 8,780,800**
Use of goods and services	**$ 4,553,080**	**$ 2,944,240**
General expenses	**$ 150,400**	**$ 150,400**
Specialized materials and services	**$ 1,185,000**	**$ 1,185,000**
Special operational services	$ 1,185,000	$ 1,185,000
Other expenses	**$ 3,217,680**	**$ 1,608,840**